

FISCAL NOTE

Bill #: SB0250

Title: Disallow capital gains tax credit for publicly traded common stock

Primary Sponsor: Ellingson, J

Status: Second Reading

Sponsor signature

Date

David Ewer, Budget Director

Date

Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	\$0	\$27,863
Revenue:		
General Fund	\$0	\$2,261,000
Net Impact on General Fund Balance:	\$0	\$2,233,137

- | | |
|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. Under current law, for tax years 2005 and 2006, taxpayers are allowed a tax credit against individual income taxes equal to 1% of net positive capital gains reported on the individual income tax form, regardless of the source of the gain. For tax year 2007, this credit is equal to 2% of net positive capital gains reported.
2. Individual income taxes are deposited 100% to the state general fund.
3. Under this proposal, the capital gains tax credit would not be allowed for capital gains associated with the sale of "common stock" of publicly traded companies listed on a national stock exchange.
4. This proposal applies to tax years beginning after December 31, 2005 (tax year 2006 and after).
5. Capital gains reported on individual income tax returns will be \$837.357 million for tax year 2006; and \$879.048 million for tax year 2007 (HJR2).
6. Of the total amount of capital gains reported, 27% is associated with the sale of securities of publicly traded companies (DOR study of the distribution of capital gains by asset type). Hence, under this proposal, a total of \$226.086 million in tax year 2006, and \$237.343 million in tax year 2007 will not be eligible for the capital gains tax credit.

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(continued)

7. Capital gains tax credits associated with capital gains income received in a particular tax year reduce state general fund revenues in the following fiscal year (i.e., tax credits associated with tax year 2006 capital gains income reduce FY 2007 revenues by a like amount).
8. Based on the above assumptions, this proposal will increase revenues to the state general fund by \$2.261 million in FY 2007 (1% of \$226.086 million in ineligible capital gains income).
9. In order to effectively administer and ensure compliance with the provisions of this bill, the Department of Revenue would need an additional 0.50 FTE auditor to audit claims for capital gains tax credits. Additional administrative expenses total \$27,863 in FY 2007.

FISCAL IMPACT:

	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
FTE	0.00	0.50

Expenditures:

Personal Services	0	18,149
Operating Expenses	0	3,914
Equipment	<u>0</u>	<u>5,800</u>
TOTAL	\$0	\$27,863

Funding of Expenditures:

General Fund (01)	\$0	\$27,863
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Revenues:

General Fund (01)	\$0	\$2,261,000
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Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$0	\$2,233,137
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LONG-RANGE IMPACTS:

The revenue impact of this proposal will increase significantly for capital gains in tax year 2007 (FY 2008) and thereafter, as the capital gains tax credit is 2% in that year and thereafter, rather than 1%. Under this proposal, revenues to the general fund will be increased an estimated \$4.747 million in FY 2008 (2% of \$237.343 million in ineligible capital gains income). Revenue increases in future years will depend on the level of capital gains derived from the sale of securities.